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FINANCIAL

# ANNUAL AUDITED REPORT FORM X-17A-5 PART III

## OMB APPROVAL

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## FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING March 1, 2003 AND ENDING February 29, 2004  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: BancShares First, Inc.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

6457 Reflections Drive

(No. and Street)

Dublin

Ohio

43017

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Cohen McCurdy, Ltd.

(Name - if individual, state last, first, middle name)

27955 Clemens Road

Westlake

Ohio

44145

(Address)

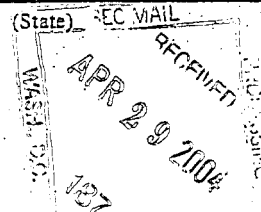
(City)

(State)

(Zip Code)

## CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.



## FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

# OATH OR AFFIRMATION

I, Jim Passias, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of BancShares First, Inc., as of February 29, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

No exceptions



YOLANDE D. CIRCOSTA  
Notary Public, State of Ohio  
My Commission Expires 04-20-08

[Signature]  
Signature

Executive Vice President

Title

Yolande D. Circosta  
Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

BANCSHARES FIRST, INC.  
INDEPENDENT AUDITORS' REPORT  
FEBRUARY 29, 2004



Cohen  
McCurdy

Certified Public Accountants

BANCSHARES FIRST, INC.

FEBRUARY 29, 2004

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SHAREHOLDER  
BANCSHARES FIRST, INC.

### Independent Auditors' Report

We have audited the accompanying statement of financial condition of Bancshares First, Inc. (a wholly-owned subsidiary of Bancshare Investors Brokerage, Inc.) as of February 29, 2004, and the related statements of income, changes in shareholder's equity and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bancshares First, Inc. as of February 29, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, and III is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Cohen McCurdy, Ltd.*

March 25, 2004  
Westlake, Ohio

## STATEMENT OF FINANCIAL CONDITION

FEBRUARY 29, 2004

## ASSETS

CASH AND CASH EQUIVALENTS	\$ 42,248
RELATED PARTY RECEIVABLE	31,077
COMMISSIONS RECEIVABLE	<u>8,882</u>
	<u>\$ 82,207</u>

## LIABILITIES

COMMISSIONS PAYABLE	\$ 2,592
FEDERAL INCOME TAX PAYABLE	<u>4,667</u>
	<u>7,259</u>

## SHAREHOLDER'S EQUITY

COMMON STOCK	
No par value, 100 shares authorized, issued and outstanding	550
ADDITIONAL PAID-IN CAPITAL	55,500
RETAINED EARNINGS	<u>18,898</u>
	<u>74,948</u>
	<u>\$ 82,207</u>

*The accompanying notes are an integral part of these statements.*

STATEMENT OF INCOME  
YEAR ENDED FEBRUARY 29, 2004

## REVENUES

Commissions and fees	\$ 96,462
Interest and dividends	<u>196</u>
	<u>96,658</u>

## EXPENSES

Salaries and other compensation	48,085
Regulatory fees	8,681
Other	<u>8,781</u>
	<u>65,547</u>

NET INCOME BEFORE TAXES	31,111
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PROVISION FOR FEDERAL INCOME TAXES	<u>4,667</u>
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NET INCOME	<u>\$ 26,444</u>
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*The accompanying notes are an integral part of these statements.*

## STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

YEAR ENDED FEBRUARY 29, 2004

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS (DEFICIT)</u>	<u>TOTAL</u>
BALANCE – MARCH 1, 2003	\$ 550	\$ 55,500	\$ (7,546)	\$ 48,504
NET INCOME	<u>          </u>	<u>          </u>	<u>26,444</u>	<u>26,444</u>
BALANCE – FEBRUARY 29, 2004	<u>\$ 550</u>	<u>\$ 55,500</u>	<u>\$ 18,898</u>	<u>\$ 74,948</u>

*The accompanying notes are an integral part of these statements.*



STATEMENT OF CASH FLOWS  
YEAR ENDED FEBRUARY 29, 2004

## CASH FLOW USED IN OPERATING ACTIVITIES

Net income	\$ 26,444
Increase (decrease) in cash resulting from changes in operating assets and liabilities:	
Commissions receivable	(1,650)
Related party receivable	(31,077)
Commissions payable	(849)
Federal income tax payable	4,667
Net cash provided by operating activities	<u>(2,465)</u>

## CASH FLOW PROVIDED FROM INVESTING ACTIVITY

Officer loan repayments	<u>8,500</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS 6,035

CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR 36,213

CASH AND CASH EQUIVALENTS – END OF YEAR \$ 42,248

*The accompanying notes are an integral part of these statements.*

## NOTES TO THE FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Bancshares First, Inc. (the Company) is a broker-dealer registered with the Securities and Exchange Commission (SEC) and the State of Ohio, and is a member of the National Association of Securities Dealers, Inc. (NASD) specializing in inactively traded independent community banks throughout the mid-western United States for investment by individuals and institutional investors. The Company is a wholly-owned subsidiary of Bancshare Investors Brokerage, Inc. (BSIB).

Cash and Cash Equivalents

The Company considers financial instruments with a maturity of less than 90 days to be cash equivalents.

At times during the year, the Company's cash accounts exceeded the related amount of Federal depository insurance. The Company has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk.

Receivables and Credit Policies

Commissions receivable are uncollateralized obligations due under normal trade terms requiring payments within 30 days from the report date. The Company generally collects receivables within 30 days and does not charge interest on commissions receivable with invoice dates over 30 days old.

Commissions receivable are stated at the amount billed. Payments of commissions receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of commissions receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all commissions receivable balances that exceed 90 days from the invoice date and based on an assessment of current credit worthiness, estimates the portion, if any, of the balance that will not be collected. Additionally, management estimates an allowance for the aggregate remaining commissions receivable based on historical collectibility. In the opinion of management, at February 29, 2004, all commissions were considered collectible and no allowance was necessary.

Concentration of Credit Risk

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

## NOTES TO THE FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company is included in the consolidated federal income tax return filed by the Parent. Federal income taxes are calculated as if the companies filed on a separate return basis, and the amount of current tax or benefit calculated is either remitted to or received from the Parent. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax liabilities or assets between years. The Company has no material differences between its tax and accounting bases.

Accounting Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

## 2. RELATED PARTIES

The Company has an expense sharing arrangement with its parent, BSIB. During the year, the Company allocated \$31,077 to BSIB for its share of certain expenses, which is included in related party receivable at February 29, 2004.

## 3. NET CAPITAL PROVISION OF RULE 15c3-1

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital balance, as defined, under such provisions.

The Company's minimum capital requirement is the greater of \$25,000 or 6.67% of aggregate indebtedness, as defined, under Securities and Exchange Commission Rule 15c3-1(a)(1), as it does not maintain customer accounts. Net capital may fluctuate on a daily basis. At February 29, 2004, the Company had net capital of \$43,355, which was \$18,355 in excess of its required net capital of \$25,000.

In addition to the minimum net capital provisions, Rule 15c3-1 requires that the Company maintain a ratio of aggregate indebtedness, as defined, to net capital, of not more than 15 to 1. At February 29, 2004, the ratio was .16 to 1.

## NOTES TO THE FINANCIAL STATEMENTS

## 4. EXEMPTION FROM RULE 15c3-3

The Company acts as an introducing broker or dealer, promptly transmitting all funds and delivering all securities received in connection with its activities as a broker or dealer and does not otherwise hold funds or securities for or owe money or securities to customers. The Company operates under Section (k)(2)(ii) of Rule 15c3-3 of the Securities Exchange Act of 1934 and is therefore exempt from the requirements of Rule 15c3-3.

## 5. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

SUPPLEMENTAL INFORMATION  
PURSUANT TO RULE 17a-5 OF THE  
SECURITIES EXCHANGE ACT OF 1934

FEBRUARY 29, 2004

SCHEDULE I - COMPUTATION OF NET CAPITAL  
PURSUANT TO RULE 15c3-1 OF THE  
SECURITIES AND EXCHANGE COMMISSION

FEBRUARY 29, 2004

## NET CAPITAL

Total shareholder's equity from statement of financial condition	\$ 74,948
Less: Deductions for non-allowable assets	<u>(31,077)</u>

## NET CAPITAL BEFORE HAIRCUTS ON SECURITIES

43,871

Haircuts on securities

516

## NET CAPITAL

\$ 43,355

## COMPUTATION OF AGGREGATE INDEBTEDNESS - TOTAL

LIABILITIES FROM STATEMENT OF FINANCIAL CONDITION

\$ 7,259

## COMPUTATION OF BASIC NET CAPITAL REQUIREMENT -

6 2/3% OF AGGREGATE INDEBTEDNESS

\$ 484

## MINIMUM REQUIRED NET CAPITAL

\$ 25,000

## NET CAPITAL REQUIREMENT

\$ 25,000

## EXCESS NET CAPITAL

\$ 18,355

## PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL

16%

SCHEDULES II AND III – RECONCILIATION OF THE  
COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1 AND  
COMPUTATION FOR DETERMINATION OF RESERVE  
REQUIREMENTS AND INFORMATION RELATING TO POSSESSION OR CONTROL  
REQUIREMENTS PURSUANT TO RULE 15c3-3 OF THE  
SECURITIES AND EXCHANGE COMMISSION

FEBRUARY 29, 2004

A reconciliation of the computation of net capital under Rule 15c3-1 as included in the Company's unaudited Form X-17a-5 as of February 29, 2004, filed with the Securities and Exchange Commission and the amount included in the accompanying Schedule I computation follows:

	<u>February 29, 2004</u>
Net capital, as reported in Company's Form X-17a-5, Part IIA,	\$ 48,538
Net audit adjustments	<u>5,183</u>
Net capital, as reported in Schedule I	<u>\$ 43,355</u>

The Company is not required to present the schedules "Computation for Determination of Reserve Requirements Under Rule 15c3-3" and "Information for Possession or Control Requirements Under Rule 15c3-3" as it meets the exemptive provisions of Rule 15c3-3, under Section (k)(2)(ii) of the Rule.



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SHAREHOLDER  
BANCSHARES FIRST, INC.

Independent Auditors' Report on Internal Control  
Required by SEC Rule 17a-5

In planning and performing our audit of the financial statements and supplemental schedules of Bancshares First, Inc. (the Company) for the year ended February 29, 2004, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons.
2. Recordation of differences required by Rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.



Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at February 29, 2004, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers and is not intended to be and should not be used by anyone other than those specified parties.

*Cohen McCurdy, Ltd.*

March 25, 2004  
Westlake, Ohio